

# **USAID/Central America Regional Program**

## **Annual Report**

**FY 2004**

June 15, 2004

## **Please Note:**

The attached RESULTS INFORMATION is from the FY 2004 Annual Report and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

The Annual Report is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

Related document information can be obtained from:  
USAID Development Experience Clearinghouse  
8403 Colesville Road, Suite 210  
Silver Spring, MD 20910  
Telephone: (301) 562-0641  
Fax: (301) 588-7787  
Email: [docorder@dec.cdie.org](mailto:docorder@dec.cdie.org)  
Internet: <http://www.dec.org>

Portions released on or after July 1, 2004

## Central America Regional Program

### Performance:

With negotiations complete between the United States and El Salvador, Guatemala, Honduras, and Nicaragua, Central America is poised for a Central America Free Trade Agreement (CAFTA) with the United States and thereby take a historic step in regional integration and the opening of its economies to global markets. The region is still recovering from decades of civil conflict and dealing with spiraling crime and widespread poverty.

Four countries in the region suffered from military-controlled regimes and over a quarter of a million lives were lost in Cold War-related conflicts of the 1960s - 1980s. Central America remains overly dependent on traditional agricultural commodities; the region's \$68 billion economy and population of 36 million make it the seventh-largest Latin American economy. U.S. exports to the region in 2000 exceeded \$8.8 billion-more than the combined U.S. exports to Russia, Indonesia, and India. However, during the 1990s, the annual average GDP growth rate was around 1.6%, less than population growth. The economic situation has worsened, due to the combined fall-out from the decline in coffee prices and global economic slowdown. The result is a social crisis with increases in cases of chronic malnutrition, gang violence, and the proliferation of organized criminal activities such as drug smuggling, human trafficking, and money laundering. Central America continues to rely on the "escape valve" of migration to the United States in the face of deteriorating economic and social conditions. The rapidly growing U.S. Hispanic population (13% of the total population) is the largest U.S. minority group. Five percent of the documented U.S. Hispanic population is from Central America, and four out of the leading ten source countries for U.S. undocumented immigrants are from the region. This combined population of documented and undocumented U.S. residents sends over \$5.5 billion annually in remittances, which are essential for sustaining the region's economies.

Central America's 2002 per capita income was \$1,883. Despite its lower-middle income classification, over one-fourth of its population lives below the poverty line and one-third is illiterate. Central America has the worst primary school repetition and completion rates in Latin America, undermining its competitiveness in the global economy. Regional poverty stems from reliance on traditional products and deeply rooted social inequalities, with wide gender, ladino-indigenous and rural-urban gaps. The low income-generating ability of the vast majority of Central Americans is clearly evident in the poor living conditions of the people. These bleak standards include a disappointing rate of infant mortality (the infant mortality rate is 28 per 1,000 live births) and persistent chronic malnutrition among children.

Living standards are deteriorating and economic growth is limited by environmental degradation, including persistent and unchecked deforestation that limits water for industry, towns, and surrounding agricultural lands, and refuges for endangered species. Regional forests, coastal areas, and wetlands are increasingly under pressure from human population growth, road building, criminal activities, and the conversion of land for grazing and agriculture. In many areas, hunting, fishing, tourism, and the extraction of wood for timber, fuel, and non-wood products have reached unsustainable levels, causing irreversible damage, and a growing threat to the region's water supply and to sustainable economic growth.

Central America is threatened by the emerging HIV/AIDS epidemic. Conservative estimates indicate that there are currently more than 175,000 infected individuals, the majority of whom are unaware of their condition and so do not take measures to prevent future transmission. While the epidemic began among homosexual and bisexual men, there has been a steady increase among women. As HIV/AIDS becomes established in the heterosexual population, vertical transmission (from mother to unborn/newborn child) is increasing. AIDS is already the leading cause of death of women of reproductive age in Honduras and is the leading single cause of death in adults 20-49 in Panama. In

other countries it is one of the main causes of admittance to reference hospitals. The region's future economic development is threatened since the costs of AIDS-related morbidity and mortality tax both human and financial resources. The areas most likely to be affected by HIV/AIDS include work productivity, medical-care costs, the orphan population, and the size of the labor force.

U.S. national interests in Central America include regional trade integration, democracy, and the containment of illegal migration, organized crime (including gangs) and narco-trafficking. Trade remains at the top of the region's political agenda. The United States expects to complete negotiations for CAFTA, which will serve as a vital step toward completion of the Free Trade Agreement of the Americas by 2005. Since 1990, trade between the five countries and the United States has nearly tripled. The United States is Central America's most important trading partner, accounting for 43% of Central American exports and providing 41% of its imports. U.S. private investment in the region is around \$1 billion in spite of the region's overall non-competitiveness, and is anticipated to substantially increase under CAFTA. The free trade agreement is expected to reinforce the region's integration process and help maintain stability while assisting the region to invigorate its faltering economies. U.S. assistance played a critical role in supporting CAFTA negotiations, and will play a subsequent crucial role in implementing CAFTA by engaging the region's governments and civil society, and ultimately will support the creation of an integrated Central American economy.

Central America is struggling with spiraling violence fueled by increased gang activity and organized crime. Since the wars ended in the 1990s, Central America has become fertile ground for gangs, which have proliferated alarmingly. Central American countries have very young populations, rampant poverty and unemployment, and hundreds of thousands of leftover weapons, and ample access to gang culture due to increased U.S. deportations of indoctrinated criminals. Gangs are an attractive option for the region's youth who are looking for a place to belong in societies that seem to offer little. The Mesoamerican corridor is the preferred route for illegal migrants and narcotics; up to 70% of illicit South American narcotic shipments pass through the isthmus to the United States. To help combat this, USAID's activities promote economic growth and support the creation of licit employment opportunities for rural youth through its rural diversification efforts.

This year USAID has strived to build regional trade capacity and responded to requests from governments for technical assistance related to CAFTA negotiations (e.g., on labor and environmental issues). Through close coordination with the U.S. Embassies and civil society, USAID efforts led to sufficient attention to CAFTA-related issues through public outreach efforts carried out in Guatemala, Honduras, and Nicaragua. USAID has put several activities in place to support further reform in trade policy and regional integration when CAFTA comes into effect.

Undoubtedly USAID's key achievement this year was our support for the CAFTA negotiations, which was a centerpiece in USAID's regional trade capacity building efforts. USAID also improved customs efficiency at six one-stop, integrated border facilities (e.g., Guatemala-El Salvador and Honduras-El Salvador). USAID also contributed to the improvement of Central American private industry through the creation of a regional Clean Production Development Credit Authority, which through several banks makes a \$10 million line of credit available.

The USAID/Central America Program played a prominent role in the Agency's public-private alliance-building efforts, accepting management responsibility for six Global Development Alliance (GDA) activities, which includes \$5,710,000 of GDA funds. These funds will be matched with additional funding from the USAID/Central America Program (\$1,400,000), USAID/Nicaragua (\$600,000), and USAID/Mexico (\$300,000).

USAID/Central America Program's current regional strategy is scheduled to end on September 30, 2006. However, USAID/Central America Program will revise its approach in the form of a new regional plan due to be submitted in April 2004. This regional plan will be under the new regional Central America and Mexico strategy (CAM). Currently we are initiating the process of developing this new regional plan for 2005-2009 that will focus on the following three areas: 1) Strengthened foundations for democratic governance; 2) diversified, expanding rural economies for Central America; and 3) Healthier, better

educated young women and children and containing HIV/AIDS. It is anticipated that fewer resources will be available for the new regional program and the Mission is working, therefore, to further focus its assistance and anticipates expanding our use of alliances to leverage resources and expand our impact.

**Country Close and Graduation:**

Not applicable.

## Results Framework

### **596-001 Increased Central American Participation in Global Markets**

### **596-004 Improved Regional Capacity to Mitigate Transnational Effects of Disasters**

### **596-005 Increased Central American Competitiveness in Global Markets**

#### **SO Level Indicator(s):**

Decrease in the percentage of intellectual property rights piracy rate  
Intra-regional trade coefficient (exports + imports) of Gross Domestic Product  
Ratio of Central American exports to Latin American exports (excluding Mexico)

- 1 More Open Trade and Investment Policies
- 2 Accelerated Central American Market Integration
- 3 More Equitable and Efficient Labor Markets
- 4 Effective Preparation of Central America for Trade Negotiations

### **596-006 Improved Environmental Management in the Mesoamerican Biological Corridor**

#### **SO Level Indicator(s):**

Number of entities adopting models, policies, practices, technologies or regulations for improved environmental management

Number of hectares under improved management

- 1 Improved protected area management in the Mesoamerican Biological Corridor
- 2 Expanded market access for environmentally sound products and services
- 3 Harmonized environmental regulations
- 4 Increased use of less polluting technologies and practices

### **596-007 Strengthened Municipal Finance Systems for Local Governments in Central America**

### **596-008 The HIV/AIDS Problem in Central America Contained and Controlled**

#### **SO Level Indicator(s):**

General population prevalence of HIV

Prevalence of HIV among high-risk groups

- 1 Appropriate HIV/AIDS policies and strategic plans implemented
- 2 Improved prevention, support systems and other services implemented
- 3 Care and attention model developed and disseminated

### **596-009 Increased Diversification of the Rural Economy**

#### **SO Level Indicator(s):**

The value of Central America and Dominican Republic quality coffee exports / value of global quality coffee exports

The value of Central American non-traditional exports / value of global non-traditional exports

- 1 Improved competitiveness and sustainability of quality coffee exports
- 2 Improved competitiveness of the rural economy

### **596-021 Ruling Justly: More Responsive, Transparent Governance**

### **596-022 Economic Freedom: Open, Diversified Expanding Economies**

### **596-023 Investing in People: Healthier, Better-Educated People**

#### **SO Level Indicator(s):**

Reduced incidence of HIV among high-prevalence groups

- 1 Increased use of prevention practices and services to combat HIV/AIDS
- 2 Improved policies implemented
- 3 Effective and efficient delivery of comprehensive care and treatment for people living with HIV/AIDS

### **596-024 Timely Humanitarian Assistance and Humanitarian Response**

### **596-025 Improved Country Performance (Central America and Mexico Performance Fund)**

### **596-XXXX Performance Fund - Central America**